

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58067

**SAN JUAN COUNTY PUBLIC HOSPITAL DISTRICT NO. 1
DBA INTER-ISLAND MEDICAL CENTER
AND SAN JUAN EMERGENCY MEDICAL SERVICES**

San Juan County, Washington

January 1, 1994 Through December 31, 1995

Issue Date: February 14, 1997

TABLE OF CONTENTS

	Page
Background	B-1
Management Section	
<hr/>	
Independent Auditor's Report On Compliance With State Laws And Regulations . .	M-1
Schedule Of Findings:	
1. The District Should Strengthen Internal Controls Over Accountability Of Fixed Assets	M-3
2. The District Should Improve Internal Control Over The "Dummy" Accounts And Refunds At Inter-Island Medical Center	M-4
3. The District Should Improve Controls Over Cash Receipts	M-5
Status Of Prior Findings	M-7
Financial Section	
<hr/>	
Independent Auditor's Report On Financial Statements	F-1
Financial Statements:	
Balance Sheet - 1995	F-2
Statement Of Support, Revenue And Expenses - 1995	F-3
Statement Of Fund Balance - 1995	F-5
Statement Of Cash Flows - 1995	F-6
Notes To Financial Statements - 1995	F-7
Balance Sheets - 1994 And 1993	F-16
Statements Of Support, Revenue And Expenses - 1994 And 1993	F-17
Statements Of Fund Balance - 1994 And 1993	F-19
Statements Of Cash Flows - 1994 And 1993	F-20
Notes To Financial Statements - 1994 And 1993	F-21
Addendum	
<hr/>	
Directory Of Officials	A-1

SAN JUAN COUNTY PUBLIC HOSPITAL DISTRICT NO. 1
DBA INTER-ISLAND MEDICAL CENTER
AND SAN JUAN EMERGENCY MEDICAL SERVICES
San Juan County, Washington
January 1, 1994 Through December 31, 1995

Background

San Juan County Public Hospital District No. 1 consists of two separate operating enterprises with separate administrations. Inter-Island Medical Center operates a medical clinic/hospital. San Juan Island Emergency Medical Services (EMS), also known as San Juan Aid Unit, operates an aid unit/ambulance service. Both enterprises report to the San Juan County Public Hospital District No. 1 Commissioners.

San Juan County Public Hospital District No. 1 was incorporated as a municipal government in mid-1990 to operate Inter-Island Medical Center. Until January 1, 1995, Inter-Island Medical Center was the only operation governed by San Juan County Public Hospital District No. 1.

EMS operated under San Juan County Fire District No. 3 through December 31, 1994. The major source of revenue to EMS is emergency medical services tax. By vote of the electorate, the beneficiary of the emergency medical services tax was changed from San Juan County Fire District No. 3 to San Juan County Public Hospital District No. 1 as of January 1, 1995. Effective January 1, 1995, San Juan County Fire District No. 3 transferred, by resolution, the assets and liabilities of EMS to San Juan County Public Hospital District No. 1.

This audit report covers the operations of Inter-Island Medical Center from January 1, 1994, to December 31, 1995, and San Juan Island Emergency Medical Services from January 1, 1995, to December 31, 1995.

Due to management concerns regarding the appropriateness of presenting 1994 and 1995 financial activity in a comparative format, two separate sets of financial statements are included in this report:

- a. Comparative financial statements for 1994 and 1993 reflecting San Juan County Public Hospital District No. 1 doing business as Inter-Island Medical Center
- b. Combined financial statements for 1995 reflecting San Juan County Public Hospital District No. 1 doing business as Inter-Island Medical Center and San Juan Island Emergency Medical Services.

SAN JUAN COUNTY PUBLIC HOSPITAL DISTRICT NO. 1
DBA INTER-ISLAND MEDICAL CENTER
AND SAN JUAN EMERGENCY MEDICAL SERVICES
San Juan County, Washington
January 1, 1994 Through December 31, 1995

**Independent Auditor's Report On Compliance With State
Laws And Regulations**

Board of Commissioners
San Juan County Public Hospital District No. 1
Friday Harbor, Washington

We have audited the financial statements, as listed in the table of contents, of San Juan County Public Hospital District No. 1, San Juan County, Washington, as of and for the fiscal years ended January 1, 1995 and 1994, and have issued our report thereon dated August 21, 1996.

We also performed tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the district complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office.

Compliance with these requirements is the responsibility of the district's management. Our responsibility is to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the district and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an overall opinion on compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our tests indicated that, with respect to the items tested, the district complied, in all material respects, with the applicable laws and regulations referred to in the preceding paragraphs. However, we noted instances of noncompliance of regulatory requirements immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report. With respect to items not tested, nothing came to our attention that caused us to believe that the district had not complied, in all material respects, with those provisions.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 21, 1996

SAN JUAN COUNTY PUBLIC HOSPITAL DISTRICT NO. 1
DBA INTER-ISLAND MEDICAL CENTER
AND SAN JUAN EMERGENCY MEDICAL SERVICES
San Juan County, Washington
January 1, 1994 Through December 31, 1995

Schedule Of Findings

1. The District Should Strengthen Internal Controls Over Accountability Of Fixed Assets

During our audit of the district's fixed asset system, we noted the hospital does not have adequate descriptive detail of all property owned by Inter-Island Medical Center (IIMC). Also, it does not have an adequate system to ensure all assets included in the fixed asset records are accounted for properly. Additionally, we noted the hospital does not have an adequate system in place to ensure all fixed assets are identified as hospital property. While a physical inventory of IIMC's fixed assets was taken in April 1995, no reconciliation of the physical inventory to IIMC's fixed asset records was done.

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting, and Reporting System* (BARS) manual which states in Volume 1, Part 3, Chapter 7:

Accountability for fixed assets is required for all local governments regardless of size.

The BARS manual further states:

An adequate fixed asset accounting system will enable your government to meet statutory requirements, to produce adequate records and reports and to safeguard assets properly.

The April 1995 physical inventory of Inter-Island Medical Center assets was not reconciled to the fixed asset records because the fixed asset records do not contain sufficient descriptive and/or identifying detail.

The hospital's lack of control over fixed assets could result in errors and irregularities occurring and not being detected in a timely manner, if at all.

We recommend the hospital update its fixed asset records to ensure all fixed assets can be identified through serial numbers, tagging or otherwise permanently marking them. We further recommend the hospital continue to perform periodic inventories and reconcile those inventories to its accounting records.

Auditee's Response

Internal control over accountability of fixed assets. We agree that we need to improve this control. We do not have a reconciliation of our 1995 inventory to our accounting asset records. The original accounting records came from an inventory performed in association with the development of the hospital district. Many of the items were old and already depreciated and many of the descriptions were general, such as "chair." We are in the process of reconciling these two lists along with the new purchases and declared surplus items. Major equipment will be labeled with identification tags.

2. The District Should Improve Internal Control Over The "Dummy" Account And Refunds At Inter-Island Medical Center

Our testing of refunds issued by Inter-Island Medical Center (IIMC) identified a loss of public funds of at least \$660.63. IIMC has a patient receivable account (titled the "Dummy" account) to handle receipts or disbursements for which a specific patient account has not been identified. In 1994 and 1995, a large number of transactions were posted to this account including 37 refunds totaling \$3,128.40. We tested six of these refunds representing \$1,409.92 and found two exceptions where refunds of \$660.63 were issued to patients in error.

Article VIII, Section 7 of the Washington State Constitution states:

No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm

The identified loss of public funds occurred due to inadequate monitoring and follow-up of billings, receipts, and disbursements to and from the "Dummy" account. This account, as currently managed, is difficult to monitor due to the high volume of transactions posted to it.

As a result of the internal control weakness noted, additional errors and irregularities resulting in the loss of public funds could occur and not be detected in a timely manner, if at all.

We recommend the district maintain detailed records to facilitate monitoring of all postings to the "Dummy" account and their subsequent resolution. These records should allow the district to readily identify those transactions comprising the "Dummy" account balance at any time. We further recommend periodic supervisory review of this account.

Auditee's Response

Internal control over the "dummy account." This account is used to post payments when the proper account is unknown at the moment. Refunds are then posted from this account. Due to the way the account is set up and the high volume (but low dollar volume) of items it is difficult to monitor. To remedy this situation we are going to make the dummy account an open item account which will allow posting of transactions against open line items. Refunds will not be made out of the dummy account without a corresponding line item to post against. These refunds will not be issued until an account history is run in order to locate and validate the justification for the refund. This will facilitate tracking of the transaction trail. Furthermore, copies of EOBs and other pertinent documents will be kept in a second folder to aid in a monthly account review of the dummy account.

3. The District Should Improve Controls Over Cash Receipts

During an unannounced cash count, an insurance check in the amount of \$77.95 was observed which could not be traced to subsequent deposit. Our follow-up identified the following internal control weaknesses:

- a. Inter-Island Medical Center (IIMC) has an informal policy to not deposit insurance payments received on accounts with a \$0.00 balance. Instead, IIMC staff endorse the insurance payments and mail them to the patient. Thus, no record of checks handled in this manner is maintained.
- b. IIMC has a control procedure where receipts received by mail are copied and a calculator tape control total is established prior to transmitting the receipts to the billing and posting clerk. However, insurance checks are not included in this control total.
- c. The employee responsible for preparing the mail receipts control total also is responsible for billings, billing adjustments, and initiation of refunds.

Article XI, Section 15 of the Washington State Constitution states:

All moneys, assessments and taxes belonging to or collected for the use of any county, city, town or other public or municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer, or other legal depository to the credit of such city, town, or other corporation respectively, for the benefit of the funds to which they belong.

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

As a result of the identified internal control weaknesses, errors or irregularities resulting in the loss of public funds could occur and not be detected in a timely manner, if at all.

In addition, IIMC could be held responsible for checks which were made out to IIMC, endorsed, and mailed to patients. By not depositing these checks and thereby tracking the

receipt and subsequent disbursement, if applicable, of these payments, IIMC has no means to locate these payments if needed.

We recommend the hospital:

- a. Deposit all receipts intact.
- b. Include all receipts (including receipts with remittance advice) on the control tape and reconcile the total to receipts posted to the accounts receivable system.
- c. Reassign responsibility for preparing the mail receipts control total.

Auditee's Response

In the past, insurance checks on accounts with \$0.00 balances were endorsed and sent to the patient. This has now been changed so that the insurance checks are deposited and refund checks are issued to the patients. We agree that all payments should be included in the control tally tape. This will consist of all insurance checks including those with transmittal documents. The total of the monthly payments will be added to the information supplied monthly to the administrator. The administrator already reviews and compares the bank deposit total with the posted receipts. The payment control totals will be included in this comparison. We previously tried to separate out the various bookkeeping functions among employees to avoid the possibility of fraud. We are limited by the small size of our staff and by the fact that the employees have to be cross trained. However, we are going to have our office manager, who is not involved with the other functions, prepare the daily receipts control tape and monthly summary.

Auditor's Concluding Remarks

We would like to express our appreciation to San Juan County Public Hospital District No. 1 for its written response to our preliminary draft audit report. Based upon the district's representations it appears that the matters delineated in our report have been, or are being, addressed.

We would like to take this opportunity to thank the staff for their assistance and cooperation during the audit process.

SAN JUAN COUNTY PUBLIC HOSPITAL DISTRICT NO. 1
DBA INTER-ISLAND MEDICAL CENTER
AND SAN JUAN EMERGENCY MEDICAL SERVICES
San Juan County, Washington
January 1, 1994 Through December 31, 1995

Status Of Prior Findings

The finding contained in the prior audit report was resolved as follows:

1. The District Should Retain All Accounting Records And Improve Internal Controls Over Cash Receipts

Resolution: Our review noted significant improvement by the district in retaining necessary accounting records. Our review of internal controls over cash receipts found improved controls. A few follow-up and clarifying recommendations associated with the prior finding have been made orally to the district. Other issues associated with cash receipting were identified during the current audit and are disclosed in Findings 2 and 3.

SAN JUAN COUNTY PUBLIC HOSPITAL DISTRICT NO. 1
DBA INTER-ISLAND MEDICAL CENTER
AND SAN JUAN EMERGENCY MEDICAL SERVICES
San Juan County, Washington
January 1, 1994 Through December 31, 1995

Independent Auditor's Report On Financial Statements

Board of Commissioners
San Juan County Public Hospital District No. 1
Friday Harbor, Washington

We have audited the accompanying financial statements of San Juan County Public Hospital District No. 1, San Juan County, Washington, as of and for the fiscal years ended January 1, 1995, 1994, and 1993, as listed in the table of contents. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Juan County Public Hospital District No. 1 at January 1, 1995, 1994, and 1993, and the results of its operations and cash flows for the fiscal years then ended, in conformity with generally accepted accounting principles.

Brian Sonntag
State Auditor

August 21, 1996